

**WRITTEN TESTIMONY OF  
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INTERNAL REVENUE SERVICE  
BEFORE THE  
HOUSE COMMITTEE ON GOVERNMENT REFORM  
SUBCOMMITTEE ON REGULATORY AFFAIRS  
ON  
PAPERWORK REDUCTION  
JULY 18, 2006**

Madam Chairman Miller, Ranking Member Lynch and members of the Subcommittee, I am happy to be here this morning to address IRS' efforts relative to paperwork reduction. My name is Beth Tucker and in addition to being the Director of Communications and Disclosure within the Small Business/Self Employed division of the IRS, I am also the acting Director of the Office of Taxpayer Burden Reduction (OTBR).

The IRS remains firm in its commitment to impose the least amount of burden necessary for taxpayers to meet their tax responsibilities. The IRS Strategic Plan, outlining our vision for 2005-2009, is very clear in articulating this goal and making its achievement the responsibility of each and every IRS employee.

In spite of our continuing efforts, reducing taxpayer burden and helping taxpayers understand our very complicated and ever-changing tax code remains a formidable challenge. Madam Chairman, we were gratified to hear the comments from you and Mr. Lynch at the March 8<sup>th</sup> hearing that demonstrated a keen appreciation for the fact that much of the burden attributed to the compliance with the tax law is the result of systemic growth, tax complexity and legislative mandates.

**IRS Burden Reduction Challenges**

Although we are taking aggressive action to diminish taxpayer burden, we fully expect that, without fundamental tax reform, the aggregate burden taxpayers face will continue to grow. Part of this growth is systemic in that it is simply the result of more people and businesses filing returns each year. In addition to the systemic growth, burden increases as a result of added complexity because of changes in and additions to the tax law.

Our tax system relies upon voluntary self-assessment of tax liability by taxpayers. Increasing complexity hinders the ability of every American to assess their tax liability accurately, and may serve as a disincentive for taxpayers to comply with their tax

obligations. Moreover, the increasing complexity of our tax laws hinders our ability to provide the American taxpayers with the service they deserve.

### **Impact of Recent Legislation**

Each year all Federal agencies are required to report to the Office of Management and Budget the burden imposed by their paperwork requirements. Our estimated FY 2006 burden is 6.65 billion hours. This compares with 6.4 billion in FY 2005, an increase of approximately 251 million hours.

Reflected in this increase is an increased number of new forms as well as changes to existing forms dictated by 10 different pieces of legislation that were enacted in 2005.

While new tax legislation often provides worthwhile new benefits or incentives for taxpayers, the tradeoff is often additional complexity and increased burden. For example, the Energy Policy Act (enacted August 8, 2005) required over 600 changes to 107 tax products (tax forms, instructions, and publications) and 7 new forms. The Safe, Accountable, Flexible, and Efficient Transportation Equity Act – A Legacy for Users (enacted August 10, 2005) required over 90 changes to 33 tax products. The Katrina Emergency Tax Relief Act of 2005 (enacted September 23, 2005) required over 230 changes to 78 tax products and two new forms. The Gulf Opportunity Zone Act of 2005 (enacted December 21, 2005) required revisions to 77 tax products and development of a new publication. Taxpayers' paperwork burden will increase based on these new reporting requirements.

However, the IRS continues to provide ways to help taxpayers file accurate and timely tax returns to reduce unnecessary burden.

### **Burden Reduction Process**

Over the last several years, we have developed a number of processes that provide opportunities to reduce burden without compromising our tax administration objectives. We have opened a dialogue with numerous external stakeholders including taxpayers, practitioners, citizen groups, industry groups, software developers, and state and federal agencies to receive suggestions for reducing unnecessary taxpayer burden.

We also meet with the Department of the Treasury, the Office of Management and Budget (OMB), and the Small Business Administration (SBA). These discussions are very important because they advance the burden reduction dialogue. We have developed comprehensive strategies to effectively communicate the delivery of programs designed to reduce burden. Over the last year alone, we have communicated to taxpayers about our many programs focused on reducing and simplifying forms, publications and notices, and promoting less burdensome rulings, regulations, and law.

Here are a few of the institutionalized vehicles we used to solicit ideas from the public and third party stakeholders:

- Form 13285A, Reducing Taxpayer Burden on America's Taxpayers was created so the public could participate in identifying taxpayer burden reduction. This form provides taxpayers with a process for submitting ideas for consideration directly to the Office of Taxpayer Burden Reduction. The form is available on [irs.gov](https://www.irs.gov).
- The Industry Issue Resolution (IIR) program was created to give taxpayers, industry associations, and other interested parties a vehicle for submitting burdensome business tax issues for possible resolution through published or administrative guidance. The goal is to quickly resolve tax issues that are common to a significant number of business taxpayers by providing targeted guidance on specific tax issues. Under the program, the IRS has issued guidance that has reduced costs, burden, and uncertainty for taxpayers.
- Practitioner and Small Business Forums with national and local level tax professionals and small business associations provide an opportunity for external customers to share feedback on burden reduction initiatives before they are implemented. These forums also provide a means for identifying and resolving burden issues and communicating initiatives as they become available.
- The Information Reporting Program Advisory Committee (IRPAC) and the Internal Revenue Service Advisory Council (IRSAC) both play a significant role as external evaluators regarding burden reduction initiatives. Both groups advise the IRS on our initiatives on a regular basis.
- The Taxpayer Advocacy Panel consists of citizen volunteers from all fifty states and acts as a two-way communication/feedback mechanism serving, among other important roles, as a focus group for the IRS by providing input on strategic initiatives, new or simplified notices, as well as providing a venue for raising issues identified by citizens. This panel is also routinely called upon to make suggestions and to identify ways to reduce taxpayer burden.
- Our Fed/State program has worked in close partnership with state and federal agencies to reduce burden. For instance, the Federation of Tax Administrators, which represents taxing agencies nationwide, is regularly called upon to vet ideas and to provide input.

To further promote burden reduction, we use established national and local networks to ensure we disseminate important information about these valuable programs as broadly as possible. All of the vehicles mentioned above are fully engaged in this delivery. In addition:

- IRS News Releases announcing burden reducing initiatives are sent through media channels, including small business and trade publications.

- Practitioner Institutes serve as part of an overall practitioner education curriculum that includes nationwide Tax Forums, liaison meetings, and Tax Talk Today, a monthly program about current tax issues and policies. The Institutes provide a much-needed venue for delivering burden reducing initiatives to those who prepare countless tax returns for the public each year.
- Small Business Tax Workshop materials developed by the IRS are delivered to taxpayers through educational institutions across the country. Public notices of available workshops are posted on [irs.gov](http://irs.gov). For those interested in a self-directed workshop, the On-Line Classroom, a video streaming of a Small Business Tax Workshop, is available. These materials are routinely updated to include burden reducing initiatives.
- The Small Business Resource Guide CD, a one-stop tax information/management tool, is also updated annually to include burden reduction efforts.

We also make a concerted effort to engage IRS employees in suggesting and implementing burden reduction strategies. It is important to note that most of the significant taxpayer burden reduction initiatives require a considerable commitment of our resources to accomplish. Systems must be reprogrammed, processes must be changed, and personnel must be trained. Taxpayers, practitioners, federal and state agencies, and software developers must be included in the process so that changes are as open, transparent, and helpful as possible.

### **The Office of Taxpayer Burden Reduction**

In 2002, the Service established the Office of Taxpayer Burden Reduction (OTBR) to lead Service-wide burden reduction efforts. Since its inception, that Office has aggressively pursued reduction initiatives and enabled the IRS to reduce burden by more than 200 million hours. OTBR has reduced burden by focusing on simplifying forms, publications, and notices; streamlining internal policies, processes, and procedures; promoting less burdensome rulings, regulations, and law; assisting in the development of a burden reduction methodology and model; and partnering with internal and external stakeholders to more effectively and efficiently identify and address burden reduction initiatives.

Since last year's hearing, OTBR, working with other IRS offices, made progress in leading the IRS in a number of initiatives, and as a result of their collective efforts:

- We completed the redesign of the 2005 Schedule K-1 (Form 1041) received by trust and estate beneficiaries and used to report income, deductions, and credits on their income tax returns. The format was changed to resemble the redesigned 2004 Schedules K-1 for partners and shareholders, making it easier for taxpayers to determine where to report amounts from the Schedule K-1 on their income tax returns. The schedules were simplified to reduce common errors and the burden associated with preparation and filing requirements. The schedules are scannable,

eliminating the risk of transcription errors. The instructions are also streamlined. The redesign incorporates input from the tax professional community, public comments, and focus groups. We project that the changes will decrease 18.8 million hours of burden for 3.5 million taxpayers.

- We are establishing an annualized Form 941. Beginning in January 2007, eligible taxpayers will file annual Form 944 rather than quarterly Forms 941 (for the taxable period January 2006 through December 2006). The new Form 944 was made available to the public in February 2006. The project, which originated with plans to help in-home day care providers, targets taxpayers who owe \$1,000 or less per year in total employment tax liability. Annualizing Form 941 (i.e., the new Form 944) offers small businesses a significant burden reduction, in that taxpayers can file a single return rather than four returns per year and they will make a single payment with their return.
- We are also progressing with our redesign of the Form 940, Employer's Annual Federal Unemployment Tax Return, and its associated processes to reduce the burden placed on 5.6 million taxpayers annually (effective for tax year 2006). We will be revising Form 940 and 940PR, revising all related instructions, and ensuring optical scanning of the new form in the 2007 processing season.
- Further out on the horizon, we are exploring the feasibility of creating new forms to improve employment tax Forms 941, 943, 944, and 945 (effective 2008).

### **Reducing Pre-Filing Burden**

If we can eliminate confusion and errors before a return or form is ever filed, taxpayers will be spared numerous unnecessary communications and burdens.

To achieve this goal, we created dedicated taxpayer education and pre-filing organizations, as well as pre-filing tools to help taxpayers better understand their responsibilities without imposing undue burden. We have built into all of our business divisions the principle of working with taxpayers and industry groups before they file their returns. We have also dedicated our efforts to create administrative thresholds and safe harbors to minimize recordkeeping.

For example, we have created the Pre-Filing Agreement (PFA) program to provide large corporate taxpayers an opportunity to request that revenue agents examine and resolve potential issues before tax returns are filed.

The IRS has one of the most rigorous paperwork review processes in the Federal government. In contrast to most information collections, which are generally subject to the Paperwork Reduction Act (PRA) process every three years, most IRS forms are subject to the PRA process on an annual basis. For example, all annual tax returns (such

as IRS Form 1040 and its schedules and attachments) have been reviewed annually under the PRA for the past 25 years. This continuous analysis and review of tax forms over the years has, we believe, resulted in tax forms that comply fully with statutory standards.

The IRS has made burden reduction an integral part of the forms development and revision process. Our objective is to ensure the tax law is accurately reflected in the forms, instructions, and publications while finding ways to reduce or eliminate unnecessary taxpayer burden. For example, since the last hearing we have made the following changes to reduce the pre-filing burden:

- **Extension of Time to File** - We eliminated the need for filing Form 2688, Application for Additional Extension of Time to File U.S. Individual Income Tax Return, by allowing the taxpayer to get a 6 month extension to file initially. Previously, a taxpayer received a 2 month automatic extension and needed to file Form 2688 to get an additional 4 months. This change eliminates over 3.7 million forms and 2.2 million hours of taxpayer burden.
- **Earned Income Tax Credit (EITC) eligibility and computation of the allowable credit** – The EITC Assistant, an on-line tool launched during the 2005 filing season helps taxpayers determine their eligibility for EITC, filing status, and estimated EITC amount. The updated version of the EITC Assistant incorporates the changes from the new uniform definition of child rules, especially as it affects filing status.
- **Alternative Minimum Tax (AMT Calculator)** – This filing season, the IRS launched an AMT calculator on [www.irs.gov](http://www.irs.gov) to assist taxpayers in determining whether or not they might be subject to the AMT and whether they need to complete Form 6251.
- **Disaster-related Burden Reduction** – As a result of recent disaster legislation, victims of hurricanes Katrina, Rita, and Wilma who experienced smaller earned incomes in 2005 can elect to compute their EITC and Additional Child Tax Credit using their larger 2004 earned income. A new IRS.gov feature – *Your 2004 Earned Income Option* – gives hurricane victims who lost their tax records immediate, 24/7, access to their 2004 earned income, allowing them to take advantage of this special election without filing delays. Taxpayers can access their 2004 earned income amount, by entering two shared secrets to protect their confidential data. Hurricane victims without Web access can retrieve the same information through an automated phone application via a disaster hotline. Additionally, the EITC Assistant on IRS.gov helps hurricane victims estimate which year's earned income results in a larger EITC credit.

## **Reducing the Burden Associated with Compliance Actions**

The IRS continues to redesign and simplify taxpayer notices. We worked with the contractors who were awarded the Private Collection Agency contracts to ensure their letters conformed to the same standards we are using for IRS notices. We are developing two additional courses for notice writers incorporating the design features that help guide readers through complex information. Creating notices with a similar look and feel will make notices easier for taxpayers to understand. The successes we have experienced in improving notices are in many instances the result of feedback from surveys of taxpayers, tax practitioners, and advisory groups.

One of our biggest success stories is that one of the most complex notices, the CP 2000, has received three awards from both public and private writing and communication organizations. The IRS sends this notice to approximately 3.7 million taxpayers each year, when the information they report differs from the information the IRS receives from financial institutions.

Examination issues, especially those involving the EITC are among the most complex issues facing taxpayers. In response to taxpayers' interactions and concerns with the EITC program, a team was created to modify letters and forms used in the EITC examination and appeals process. The new notice for initial contact provides taxpayers more information earlier in the process and an earlier opportunity to resolve their audit. This change is a major step forward in effectively communicating the examination and appeal processes and the steps taxpayers must take to exercise their rights under the law. The team received the National Taxpayer Advocate's award for their work.

Taxpayers claiming the EITC, who have been denied the credit during a past audit, are required to prove their EITC eligibility the next time they claim the credit. We revised the letter notifying taxpayers of this requirement and created a new notice to inform taxpayers when they had successfully met the requirement. The letter and notice will alleviate the confusion many taxpayers were experiencing.

We conduct correspondence examinations with taxpayers who file less complex tax returns. In the past, we sent taxpayers a lengthy publication explaining the examination process, which contained some information not usually relevant to these types of examinations. Last year, we developed a more concise publication and also provided taxpayers with a simple form they can complete to request an appeals conference. This has reduced both the information the taxpayer has to read and understand and provides a less burdensome method to disagree with audit findings.

We also clarified the appeal rights section of the math error notices. The revised section clarifies the procedures and relieves taxpayers from the burden of unnecessary correspondence.

Other revisions to forms and notices this year include:

- Forms 669 A-H, Certification of Discharge (or Subordination) of Federal Tax Lien: This family of forms was written in particularly archaic and difficult

“legalese.” These notices were rewritten in “plain language,” while retaining their legal meaning.

- Forms 872-A-P and SS-10, Consent to Extend Time to Assess Tax: As a result of a TIGTA audit, this family of forms was amended to include a paragraph on taxpayers’ rights, informing them that they had the legal option of not agreeing to the extension of time requested by the IRS. This paragraph was also rewritten in “plain language” so it could be more easily understood.
- CP 575 A-F, Assignment of EIN and 13 related notices (576s, 577, 582s, 583s, and 584): These notices were poorly written and virtually impossible to read and comprehend. The entire family of notices was rewritten to make them grammatically correct and easily understandable.

### **Shortening the Duration of Compliance Activities**

Recognizing the considerable time, money, and anxiety associated with the length of time it takes from when a tax return is filed to the resolution of an issue with the IRS, or cycle time, as we call it, we have a number of initiatives to shorten time frames.

#### *Alternate Dispute Resolution*

We have a number of programs that embrace alternative resolution strategies as a means of shortening cycle time. Just one example is the Industry Issue Resolution (IIR) Program.

The IIR Program was designed to resolve business tax issues where the tax treatment is uncertain, frequently disputed, or burdensome and affects a significant number of taxpayers. Under the program, tax issues are identified by industry associations or other groups and submitted to the IRS. Issues submitted are screened at least semi-annually to determine if an IIR project should be started.

For each issue selected, an IIR team consisting of IRS and Treasury personnel meets with taxpayers or other interested parties affected by the issue. The team’s goal is to recommend clear guidance that business taxpayers can use, thus, reducing the burden, time and expense associated with resolving issues on a case-by-case basis during tax examinations. Since its inception, 16 IIR projects have been completed.

#### *Examination Reengineering*

Our field processes have been redesigned to shorten the time it takes between the time a taxpayer files his or her return and the time an examination is concluded. Once a return has been selected for examination, the process for that examination has been redesigned to reduce taxpayer burden by placing added emphasis on planning, documenting, analyzing risk and communicating. These four concepts, when brought together in the examination process, produce an efficient, less-intrusive, and quality audit. From the



onset of the audit, the taxpayer is informed of the issues to be examined. This reduces the areas of concern for the taxpayer and reduces the documentation required.

We have also improved the front end process of selecting and classifying returns for examination, reducing the number of returns that are selected for audit that are in substantial compliance.

Additionally, we have designed the Limited Issue Focused Examination (LIFE) process to reduce taxpayer burden by eliminating mandatory compliance checks and limiting the examination to the most material issues (after a full and robust risk analysis is performed). The result is a reduction in the number of hours required to perform the examination and a reduction in the length of time to complete the examination.

Taxpayers tell us they have experienced burden reduction from the LIFE process, and our tracking supports that conclusion.

We are also operating a Compliance Assurance Program (CAP) for our largest corporate taxpayers. This is a real-time approach to compliance review that allows us, working in conjunction with the taxpayer, to determine tax return accuracy prior to filing. We believe the CAP is more efficient than a post-filing examination—as it provides corporations certainty about their tax liability for a given year within months, rather than years, of filing a tax return.

This win-win program greatly reduces taxpayers' compliance burden and their need for contingent book tax reserves. For the IRS, it allows us to increase the currency of our examinations and allows for more efficient use of our resources. In 2005, we had 17 large corporations participate in the pilot CAP program. All 17 signaled their willingness to continue for a second tax cycle in 2006. We plan to add other companies to the pilot in the coming years.

We have also developed a Decision Support Tool that will assist EITC examiners in making timelier, more accurate, and consistent decisions in EITC audits.

### **Other Taxpayer Burden Reduction Accomplishments**

The IRS has a number of initiatives that are in various stages of implementation that will reduce burden by helping us respond to taxpayers' inquiries about their accounts, improve telephone service, and facilitate timely responses to taxpayer correspondence.

- We are planning a test to send bulk electronic delivery of notices to Reporting Agents to reduce their paper handling burden. We developed a brochure for Business Master File (BMF) taxpayers designed to encourage them to e-file their tax returns.
- The Desktop Integration System (DI) provides an IRS call center assistor with access to various IRS systems to determine the status of a taxpayer's account.

This system should reduce the amount of time needed for account resolution and reduce the associated stress for the taxpayer. In addition, this system will allow an assistor to provide timely, quality responses to the taxpayer.

- The Correspondence Imaging System (CIS) improves the quality of customer service by providing on-line access to images of taxpayer correspondence, which aids in the efficient resolution of subsequent phone and written inquiries. Taxpayers are able to obtain information about their accounts accurately, quickly, and conveniently when interacting with Customer Service Representatives. The automated issuance of timely interim letters reduces taxpayer burden by eliminating a reason for second correspondence on a case. This system should benefit taxpayers by decreasing the overall time spent resolving cases. More than 10 million cases are received and worked each year. When fully implemented, the project forecasts that 11.2 million cases per year will be processed through CIS based on FY 2004 receipts.
- Contact Recording provides the technology to record customer contacts (audio & screens) and, based on business-defined rules, deliver them to managers and reviewers for quality review purposes. This enables employees to receive practical feedback and enhances their ability to accurately answer customer inquiries and save time for taxpayers by reducing repeat calls because of wrong answers. Approximately 36 million calls were handled by IRS Call Center assistants in fiscal year 2005 that will be impacted by this initiative.
- The Remittance Transaction Research Project will increase quality of service to taxpayers through early resolution of misapplied payments to taxpayer accounts because images of vouchers and checks will be available for on-line research. This initiative will reduce taxpayer burden because imaged checks and vouchers are available to assistants so that taxpayers are no longer required to provide a copy of their cancelled check. Approximately 3.5 million taxpayers are impacted annually by this initiative.
- Queuing Management Release 1, deployment of the Q-Matic equipment, will reduce taxpayer burden by providing an automated means to route customers to a specific assistor with the appropriate skill set and/or language to resolve the contact. Q-Matic equipment has been deployed to 100 percent of the Taxpayer Assistance Centers Service-wide.
- The Correspondence Examination Automation Support (CEAS) solution is being developed to process data more efficiently and quickly in order to handle more cases. Correspondence examinations are employed when the IRS requires specific documentation from the taxpayer to support the tax liability or credit. Many returns share the same non-compliance issues, resulting in systematic adjustments and form letters to the taxpayer. Automating this process allows the IRS to increase timeliness and accuracy of examinations, and allows more time to deal with questions raised by taxpayers during the audit.

## **Reducing Filing Burden (E-File Initiatives)**

### Electronic Tax Administration (ETA)

There is perhaps no area where the potential is greater to reduce paperwork for both taxpayers and IRS than the area of electronic tax administration. The benefits of electronic filing are clear and compelling. Many taxpayers find it more convenient and beneficial to do business electronically than sending paper through the mail. Other benefits of electronic filing include faster refunds, increased accuracy of returns, and acknowledgement of receipt of the e-filed return.

Significant challenges remain in transitioning from a paper-based environment to an electronic-based environment. The IRS developed an E-Strategy for Growth which outlines the IRS' plans to reduce taxpayer burden. To achieve the strategic goals, the IRS will develop and implement e-file marketing strategies, continue to expand the use of electronic signatures, and enhance IRS web site services for both practitioners and taxpayers. Ultimately, the goal of the Service is to offer all taxpayers and their representatives the ability to conduct nearly all of their interactions with the IRS electronically.

Taxpayers who transmit their Form 1040 tax returns electronically give high marks to the IRS' electronic filing programs. The American Customer Satisfaction Index (ACSI) shows customer satisfaction scores for IRS e-file exceed the averages for both the Government and retail sectors and rival those of the financial services sector. Customer satisfaction and burden reduction initiatives are fundamental to the IRS' continued efforts to maintain taxpayer trust and compliance.

The present e-filing system has demonstrated measurable success with regard to individual taxpayer satisfaction. From its modest beginning as a pilot program in 1986, when 25,000 returns were filed electronically, the number of e-filed returns has dramatically increased, with more than 71 million returns filed electronically in the past filing season. These taxpayers received the many benefits that electronic filing provides including:

- **Faster refunds:** Direct deposit can speed refunds to e-filers in about two weeks or less. Through early July 2006, over 55 million refunds were direct deposited, up from the 51.8 million refunds for the same period in 2005. The average direct deposit refund in 2006 is \$2,594.
- **More accurate returns:** E-filed returns are automatically checked for errors or missing information. Processing is more accurate and the likelihood that a taxpayer might receive an error letter from the IRS is reduced.
- **Quick electronic confirmation:** E-filers receive an acknowledgement that we have received their returns.

- **Free Internet Filing:** Now in its fourth year, Free File allows millions of taxpayers to prepare and file their Federal tax returns on-line for free. The program is a partnership between the IRS and an alliance of tax software companies that offers free on-line tax return preparation and e-filing services to at least 70 percent of the nation's 130 million taxpayers. As of June 29, 2006, Free File volume was almost 4 million returns. Free File was principally designed to advance and increase e-filing receipts and assist taxpayers, particularly in underserved and disadvantaged communities. While each of the 20 companies participating in the program sets its own qualifying criteria for its free services, the majority of the offerings are designed to serve lower-income individuals or families who claim the earned income tax credit. Others are based on the taxpayer's age, military service, or state residency.
- **Easy payment options:** E-filers with a balance due can file early and schedule a safe and convenient electronic funds withdrawal from their bank account, or pay with a credit card.
- **Federal/State e-filing:** Taxpayers in 37 states and the District of Columbia can e-file their Federal and state tax returns in one transmission to the IRS. The IRS forwards the state data to the appropriate state agency.

### E-Services

E-Services are a suite of Internet based products that allows tax professionals and payors to do business with the IRS electronically. These services include Preparer Taxpayer Identification Number (PTIN) applications with instant delivery, Taxpayer Identification Matching (TIN) matching for third-party payors, on-line registration for electronic e-Services, and on-line initiation of the electronic return originator application. The e-Services' Incentives Products offered to increase e-filing are on-line disclosure authorization, electronic account resolution, and transcript delivery system. Due to industry demand, the availability of incentives to those tax professionals and payors that e-file has been lowered from 100 to 5 individual returns filed.

As of July 10, 2006, over 162,000 practitioners have registered for e-Services since its launch in autumn 2003. The TIN Matching program continues its rapid growth with 4.5 million Interactive TIN Matches. Bulk Matching is over 126 million with a potential of collecting \$23 million in tax revenue. Forty-nine percent of e-file applications are received on-line from new applicants. Tax Practitioners have submitted 79,000 disclosure authorizations and 16,500 account-related issues for resolution with a cost saving of \$300,000. The popularity of accessing transcripts on-line has proven to be very cost-effective: practitioners received 956,000 transcripts - saving \$5 million; while employees requested 5.8 million transcripts at a savings of \$15.4 million. Overall, total savings to date as a result of e-services are in excess of \$44.5 million.

### *Modernized E-File System (MeF)*

Modernized e-File, begun in 2004, is an electronic filing program that gives corporations and tax exempt organizations the ability to file annual tax returns electronically over the Internet. (MeF) processes Form 1120, 1120S (and all of the attached forms and schedules) and Forms 990/990EZ/990PF and 1120-POL. Building on the successful implementation in 2004, MeF has accepted over 385,000 1120/1120S returns in 2006, which exceeds the projected volume for the year by more than 134 percent. As a burden reduction initiative, MeF will a single point of filing for corporate state filing and Tax Exempt filing starting in 2006. Cost savings to both the commercial and state stakeholders will be realized.

On January 11, 2005, IRS announced the e-file requirement that corporations with assets of \$50 million or more that file at least 250 returns must electronically file their 2005 Form 1120 or 1120S tax return. Throughout the year, IRS has been very involved in stakeholder outreach to ensure that taxpayers are adequately educated on this mandate. The IRS has worked to ensure that it has sufficient system capacity for the large sizes of the returns. We have also been proactively partnering with external groups to minimize the impact to the large corporations and software developers. While waivers are available, we don't anticipate the need as a result of our extensive outreach work with all of the stakeholders.

In fact, on May 31, 2006, the nation's largest tax return was filed electronically by General Electric. If the return had been filed on paper it would have been more than 24,000 pages long. Within an hour, GE received an acknowledgement of receipt from the IRS.

After the first effective year of mandatory e-filing, the requirement will be extended to corporations that have assets of \$10 million or more and file at least 250 returns annually. During 2006, again we will continue our outreach to affected businesses.

#### *Fed/State Electronic Federal Tax Payment System (EFTPS)*

The IRS and the Treasury Department's Financial Management Service are developing a pilot in conjunction with South Carolina and Illinois. The pilot is scheduled to begin in January 2007, and will enable Illinois taxpayers (South Carolina will participate in a later phase) to pay all their federal and certain state taxes online via the Treasury's Electronic Federal Tax Payment System (EFTPS). This initiative will provide one stop for taxpayers to make their federal and state tax payments.

#### *Internet Refund Fact of Filing (IRFOF)*

The inquiries to the on-line "Where's My Refund?" has increased to over 22 million this year, as opposed to 19.9 million in the 2005 filing season. The increased use of "Where's My Refund?" has reduced the number of phone calls from taxpayers seeking their refund status.

In fact, our entire suite of e-services has reduced both the number of calls answered on our toll free lines as well as walk in contacts at our Taxpayer Assistance Centers. Calls were down over 5 percent in the latest filing season and walk-in at our TAC centers were down over 11 percent. Visits to IRS.gov, however, were up over 11 percent.

### ***Future Electronic Initiatives***

In the near future, the IRS will be offering additional incentives to taxpayers to file their returns electronically. These initiatives will reduce taxpayer burden. These incentives include:

- Web services & Fed/State MeF: In 2006, the IRS will partner with states to develop Corporation and Tax Exempt state filing and have begun initial work on state partnership returns.
- 1040 e-file: Taxpayers will be able to electronically file six new forms in 2006.
- MeF: Form 1120 Amended returns and the Form 1065 will be available in the MeF system in 2007.

In addition, the Administration's budget request contains a legislative proposal to expand the IRS's authority to require electronic filing by large businesses and exempt organizations. This will encourage more taxpayers to electronically file their returns.

### **Support of Government-Wide Paperwork Burden Reduction**

The IRS has been supportive of all Government-wide efforts to reduce the burdens imposed on our customers, including aggressively addressing the requirements of the Small Business Paperwork Relief Act (SBPRA) of 2002. The IRS is well represented on the SBPRA task groups addressing Government-wide burden, making it easier for small businesses to understand their regulatory requirements, identifying ways to integrate and consolidate data, and making recommendations to improve the electronic collection and dissemination of data collected under Federal requirements. As the 2002 SBPRA Task Force recommended, the IRS is working with the Business Gateway E-Government Initiative to make it easier for businesses to interact with the Federal government and help to reduce burden through data harmonization and forms consolidation. In addition, meetings are held with SBA and OMB to discuss burden reduction efforts and to identify partnering opportunities.

### **Taxpayer Burden Models**

IRS has developed a new way of estimating taxpayer burden. The new method is based on taxpayers reporting of the time they spend and costs they incur preparing and filing their income tax returns. This approach to estimating burden reflects the changes in the way taxpayers prepare and file their returns. According to the model results for tax year 2004, individual taxpayers, on average, spend 23.4 hours and \$186 gathering information, preparing and submitting their tax returns. This estimate includes recordkeeping, tax

planning, form completion, form submission, and other activities. The largest amount of time, 17.3 hours, is spent on recordkeeping and tax planning, while only 3.8 hours is spent on form completion and form submission. The estimates are nationwide averages; particular taxpayers will experience burden that may be larger or smaller than the averages.

The complexity of the return has a significant impact on burden and affects both time and out-of-pocket expenses. Other factors that affect overall burden levels include the taxpayer's familiarity and skills with tax preparation and tax software, the type of paid preparer or software used, and costs in the taxpayer's geographic area.

Taxpayers choosing to use a paid professional, generally trade-off higher out-of-pocket expenses for the benefit of spending less of their time on taxes along with greater assurance that the return is prepared accurately. Tax preparation fees vary extensively depending on the taxpayer's tax situation and issues, the type of professional preparer and geographic area.

## **Conclusion**

Madam Chairman and members of this panel, reducing taxpayer burden is one of my strategic priorities and is the cornerstone of the service aspect of our working equation at the IRS – “Service *plus* Enforcement *equals* Compliance.” Burden reduction is everyone's job at the IRS. Again, I appreciate the opportunity to testify before your subcommittee and I welcome any questions.